"British" and "Indian" Finance

by

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SUMMARY

Time there was when Hyderabad was thought to be the beelzebub and Mysore the milch cow, both at the command of the British Imperialist in India. Times have changed. In their own ways, both Hyderabad and Mysore have developed object lessons of financial achievement. The keynote to the success of Hyderabad finances (dawning upon a long period of darkness and despair) lies in Sir Akbar Hydari's three-fold scheme of re-classification of heads of revenue and expenditure differentiating as amongst administrative, development and commercial departments, re-organisation of reserves enabling the Government to meet the bulk of capital outlay and famine relief expenditure from accumulated savings of previous years, and Departmentalisation ensuring a certain amount of autonomy to departments and concomitant economy — all tending to serve as a set of shock absorbers : the

success of Hyderabad Railway Finance is unique: her "building" programme is gigantic: with slight adaptation, what has been said of the U. S. A. monetary system could be claimed for the Hyderabad financial system: "Thus evolved, the new Hyderabad financial machine....with throttles and brakes, with high, low and reverse gears, differs considerably from the old financial horse and buggy contraption." Mysore has attained her eminence through the broadcasting of cheap power and irrigation, through Government and Government aided industries making appropriate use of her special natural resources, and through wise taxation. Both have secured substantial advance in spite of numerous impediments countenanced by the Imperial Government. In strong contrast to the success achieved by these two premier sister Indian States, stand the staggering expenses in British India on the administration in general and the increase in the number of high-paid and sinecure appointments in particular, the crumbling of railway finances, the evaporation of the Niemeyer Award, and the do-nothing policy (comparatively speaking) with regard to a cumulative mobilisation of agricultural and industrial resources. Indeed, in many

financial aspects, Hyderabad takes after the U. S. A. and Mysore after Sweden. That some Indian States are backward in certain respects, that there is still vast scope for improvement even in these two States, and the scale of operations is inevitably smaller than in British India, goes without saying it, but the purpose of this Paper is to explain by taking a few illustrations, that in matters of Finance, " Indian " finance in Hyderabad and in Mysore has fared much better than " British " finance in British India. And even today, these States are under a greater handicap than Provincial Governments on account of the rule of thumb still being current coin at Whitehall so far as Indian State economic matters are concerned. ✤

✤ The Hyderabad and Mysore Governments are not responsible for views contained in this Paper.

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The wonderful peculiarity of human nature is that it adjusts itself to changing conditions quickly, and habit becomes second nature: on matters economic in India, British policy has had its say for a century and more, and although Indians are not low in their voices in declaring to the four corners of the world the fundamental rights of Indians to manage their own affairs (and even in the evolution of a new world order to come!), a careful study of facts cannot but lead to one conclusion; namely, the European power-wielders have developed an almost permanent tendency to believe that whatever they might do in India must be interpreted by themselves, Indians and foreigners as for the real good of India; and if things are somewhat shady in certain respects, the cause lies in some inherent weaknesses of the Indians themselves. On the Indian side, camels are passing through the needle's eye, but the great majority of Indians content themselves with debates on general principles, consciously or unconsciously avoiding direct and plain speaking on the contents and colour of British economic policy in India. Numerous Indians have excelled in oratory crediting British

policy in India with more statesmanship than exercised or desired by the British themselves. This surprising attitude on both the sides must become evident to any one who for a moment detaches one's self from the almost smothering environment. One field in which such an anomalous position has persisted prominently is British finance in India. The country is quite rich in natural resources, but the authorities have not done all they could to let the people know all about it. The people are quite poor, and the authorities would like them to believe that they are much poorer than what they are—often with the help of questionable and superficial statistics —all this with the purpose of helping in the entire population passing if not respecting the idea that the British have been and are the saviours of Indian economy.

Irrigation & Hydro-Electricity.

Mettur and Pykara projects which earned 4.47 and 7.26 per cent. respectively on capital outlay for the last year, are the latest instances of Government activity in utilising water resources for irrigation and hydro-electricity as well in British India, but it was in 1902 that hydro-electric power was produced at Shivanasamudram in Mysore, for the first time in the East. Since then, the great Krishnaraja Sagara project with the Irwin Canal and the hydro-electric section, nine further extensions in the Shivanasamudram Works, the Shimsha and the Jog Works have all

maintained the Mysore State in the front rank in this respect in India. Apart from the Tata Hydro-electric Agencies, Ltd. (which is due to the driving power of the famous Tata family that found such successful expression in numerous industrial fields), the capacity of the three works being 0.246 million H. P., the Mysore Government electric installations rank first among Government undertakings, the capacity of the Mysore Works at present being 0.107 million H. P. The Industrial Commission wanted a thorough-going hydrographic survey more than a score of years ago, but we have had only "outlines of programmes of investigations" till now. The *net* revenue from electricity was Rs. 46.69 lakhs in 1938–39 in Mysore, excluding contributions to depreciation and provident funds, and 12 per cent. of the gross revenue of the State was realised in that year from Krishnaraja Sagara, hydro-electric and other irrigation works. The natural resources have been developed so efficiently that the working cost per unit of electric current was 1.97 pies in that year. Cheap electricity has been the forerunner of numerous industries the first of which to use current in large quantity was the Kolar Gold Fields. The Mysore Iron & Steel Works, the Paper Mills, the Cement Factory and numerous others followed in deriving power from Shivanasamudram and Krishnaraja Sagara. The power generated was 252,095,833 B. O. T. U., of which 207,600,804 B. O. T. U. were distributed during 1938–39, to power and lighting and pump-

ing installations. Four hundred and seventy five power installations and 3,699 lighting installations were added, bringing the total number in service to 4,815 of the former and 38,370 of the latter. Besides these, there were 17,225 street lights (inclusive of 2,930 ornamental lights). Of the total number of units sold during the month of August, 1940, 677,807 K. W. hours were for domestic purposes, 16,148,541 K. W. hours for power (industrial, etc.) and 545,726 K. W. hours for street lights. The total number of consumers during August, 1940, amounted to 46,957 as against 46,690 in July, 1940. The number of towns and villages electrified was 198. It can be asserted that electricity has become quite popular in villages as well as in towns—for lighting and for power. The astounding success of the Mysore Sugar Company is due to the vast expansion in wet cultivation brought about by the channels from the Krishnaraja Sagara. The benefits of both irrigation and hydro-electricity have been spread practically to all the districts and the scope for the development of garden factories in nooks and corners of the State, using this power, is very great in the near future. The expenditure on capital works not charged to revenue, to the end of June, 1939, was Rs. 18.1 crores while the liabilities on account of public debt and unfunded debt on the same date was Rs. 14.2 crores. The interest charges on the debt are much lower than the yield on the capital outlay, and the general tax-payer is thus saved from taxation to the

extent of the difference between the two. This is the chief cause for the increase in the income of the Government in about 17 years by one crore of rupees.

The programme of the Hyderabad State in the matter of irrigation and hydro-electricity has a thoroughness and steadiness of its own. The following table shows the great schemes the Hyderabad Government have before them for the next few decades in order to raise the standard of life in the State by bringing three million more acres under irrigation and supplying over 200,000 K. W. electric power for industries and for homesteads. The bill is expected to go up to over 65 crores, but the foundations so soundly laid and the basement constructed thereon during the last 18 years can be expected with confidence to accommodate this huge financial superstructure which will house the entire population in comfort. But how speedily these projects will be taken up and completed will to no small extent depend on co-operation by the British Government in India: many of the projects are interstatal.

Statement.

Name of project		Area estimated to be irrigated - in acres	estimated generation of electric power in K.W.
Tungabhadra	..	500,000	38,000
Devanur	..		17,800
Nizamsagar	..		2,800
Kaddam	..	20,000	7,000
Purna	..	60,000	4,000
Manair	..	10,000	700
Penganga	..		7,000
Godavari	..		65,000
Lower Krishna	..	1,000,000	50,000
Upper Krishna	..	1,000,000	30,000
Bheema	..	400,000	
Bandarpally	..	10,000	..
		3,000,000	222,300

This is apart from the expenditure already incurred so far on minor irrigation works in the State which amounts to over six crores. Major irrigation works like the Nizamsagar, Pocharum, Wyra, Palair, etc. have cost the State another six crores. The total revenues of the State from irrigation were Rs. 144 lakhs in 1935 and Rs. 145 lakhs in 1936: this was in spite of a period of depression.

In British India, we have some big enterprises in this field in addition to the 154 crores invested on irrigation works, but compared to the resources available and the size of the country, the pace of advance has been slow. And now with war prepossession, and with suspended constitu-

tions, there is every fear of such projects being postponed for long periods of time. In a recent address to the Central Irrigation Board, the Viceroy said: "The return on the vast capital investment of 154 crores is not to be measured in terms of revenue, but in the more precious currency of human life and prosperity." What he said of irrigation applies with full force to hydro-electricity as well, and such a postponement of a forward policy in hydro-electricity would be doubly regrettable as so much revenue to Government would be unutilised, and so much basic encouragement to industries great and small would be denied. We have not even a thoroughgoing all-British India irrigation and hydro-electric survey: the major portion of our knowledge of Indian economic potentialities is from the huge blanks on our maps. The hydro-electric potential of India is estimated at 27 million H. P. but the developed power is only 0. 8 million H. P. or about 3 per cent.

State-Owned & State-Aided Industries.

The Mysore Administration Report for 1938-39 says: "Thirteen large industrial concerns with a total fixed and working capital of more than three crores of rupees are completely owned and managed by Government. About 18 concerns have been started by private enterprise with the assistance of Government in the form of subscription to their share capital or in the shape of grant of land, water, electric power,

etc., free of charge or at concessional rates, while a very large number of concerns have been started by private industrialists on their own initiative or with the financial and technical assistance of Government. An analysis of the various concerns shows that 107 concerns were engaged in industries connected with food, drink and tobacco, such as rice mills, flour mills, manufacture of *bidi* and cigarette, confectionary, etc. There were 19 brick and tile factories, 7 soap factories, 3 concerns engaged in the manufacture of electrical goods, 8 concerns in furniture making, 1 in the manufacture of incandescent gas mantles and others engaged in the manufacture of ball thread, cotton rope making, cart making, type casting, bleaching and dyeing."

These figures are exclusive of the Kolar Gold Fields, some details of which follow. Amongst the Government concerns, the industry that had the most chequered career was the Mysore Iron & Steel Works. Sir M. Visvesvaraya pioneered in this, and for a long time was the butt of criticism for having let down the Mysore Government badly on this account. These vicissitudes have passed, and to-day, the Mysore Iron & Steel Works are earning *net* about 26 lakhs a year, besides affording considerable employment to local skilled and unskilled labour. In the early stages, the general manager was once afraid to tell the then chairman (Sir M. Visvesvaraya) that the anticipated deficit on the Works would

be a lakh. The chairman is reported to have smiled and exclaimed: "Is that all? I expected the deficit to be much more than that!" On account of the Mysore Iron & Steel Works, the Mysore State has attained in the eyes of the world a status which no treaty could give her. The latest feature of industrial development in Mysore is the deliberate founding of new industries in far off places (even now, the major industries are dispersed all over the State) so that all the evils of urban congestion might be eschewed: that has been made possible by cheap electric power which requires little capital outlay for transmission.

Another special feature of Mysore industrial development is the high level of the mutual complementing as amongst different Government and private industries. A few instances may be mentioned. The Electric Department will have contributed in all Rs. 3.2 lakhs by the end of 1940-41 towards the construction of the railway line from Sagara to Thalaguppa in view of the facilities accruing to that Department by the said extension for transporting machinery, etc. for the hydro-electric works at Jog Falls. The Mysore Railways allow special freights on through exports of Mysore manufactures, for mutual good. The Government Electrical and Porcelain Factories work with electric power supplied by the Electric Department, and they in turn supply electrical accessories to that Department. The Forest Depart-

ment supplies *baligi* poles which lessen the cost of capital outlay on electric main lines. The Mysore Iron & Steel Works derive electricity from Government supplies, and all iron and steel that could be made by the Works are made available to the Electric Department. The Mysore Sugar Mills supply molasses for dust-proofing the roads. The cheapness and utility of these numerous manufactures are brought home to the man in the street through the Dasara Exhibition which is an annual feature. Among the war industries actually working and about to be started are soda, chromite, acids and aeroplanes.

The appointment of a Government Director for industrial concerns signifies the maintenance of a consistent policy on all matters pertaining to costs and prices, wages and profits. It may be that the U. S. S. R. has got more numerous and larger scale industries, but it cannot be denied that Mysore has achieved a higher degree of success in handling these Government and Government aided industries, not only in the matter of direct yield on capital outlay but in the more important items of employment and wages, prices and consumption, and the further stimulus to consequential industries. The fact that the services of the Government Director of industrial Concerns have been borrowed by the Indian Supply Board is a proof of the pudding.

With the inauguration of Industrial Trust Fund with a corpus of one crore of rupees, a new chap-

ter in the development of Hyderabad industries has begun. Among the present large scale industries are six cotton mills, the cement factory at Shahabad producing about a lakh aud half tons of cement annually, and the Singareni Collieries which produce about three quarters of a million tons of coal every year. The biggest industry in the State is of course the Nizam's State Railway. The new policy of co-ordinating road, rail and air with plans to reach the outermost corners of the Dominions has proved very successful. The large and growing number of connections between bus and railway routes at suitable points and at suitable timings, the spread of the Road Motor Transport Services to areas which from the point of view of traffic could never hope to be served by the Railway, the introduction of railway lorries for the conveyance of goods over comparatively long distances along roads, and the close co-operation of the Road, Railway and the Civil Aviation Boards augur speedy prosperity to the villagers through profitable cottage industries as well as through fair prices for agricultural produce. A ten year programme built on this co-ordinated system should bring up Hyderabad to the level of Britain: such is the wonderful success attained by the road section of the Nizam's State Railway. The latest development in co-ordination in the process of mobilisation is the appointment of the General Manager of the N. S. Railway as Adviser to the Commerce and Industry Member of the Executive Council. In addition to immediate

attention to war industries, the Hyderabad Government is at present engaged in drawing up plans for a commensurate expansion in the cotton and vegetable oil industries for which there is very great scope in view of the huge production in the State of the concerned raw materials. The development of irrigation and hydro-electricity and the ramification of the entire State by the co-ordinated transport services, will bring in their train more raw material and a much greater proportion of manufacture of these materials within the Dominions.

Wise Taxation

On the average, the Kolar Gold Fields produce about Rs. 3 crores worth of gold annually at present prices. The leases to the British Companies expired on March 21, 1940, and the best course for the State would have been to take over the mines for being worked by the Government: any other course could not be conceived of for a Government which has been taking so much pains to launch new industries. But, political pressure is taller in Indian States that in British India on some matters, and although the leases to the three companies were renewed for another 30 years, credit is due to that Government for having succeeded in securing from these mines the best they could in the shape of mining royalty, special levy on gold, income and super tax—which are estimated at about three quarters of a crore annually, or about 25 per cent. of gross yield. It is of considerable interest to remember that while in South

Africa the confiscation of the full price over and above 150 s. has been discontinued and a new formula introduced according to which the Union Government gets annually about £ 2 million as loan and about £ 3½ million as tax, while the Australian Commonwealth Government takes only 50 per cent. of the excess over a basic price, the Mysore Government have succeeded in making the mines pay 75 per cent. of the excess of price over and above 150 s. per fine ounce of gold produced, *and this not as a war measure as in other gold producing countries, but as a permanent measure, of course provided the price of gold continues to be above 150 s. per ounce.* The companies have not been slow in complaining: they heve even gone so far as to claim that this new levy by the Mysore Government resulted in less tax payment to the British Government (during war time when every member of the Empire should contribute its very best) as the taxable amount of profit decreased on account of the new levy, but the Mysore Government pulled through. It is almost certain that if the Kolar Gold Fields were in British India, the new levy yielding annually Rs. 26 lakhs, would not have been made: the country would have lost the proceeds: the British shareholders would have gained.

"British" versus Mysore Finance.

Irrigation, electricity, industries and gold—these have been the mainstay of Mysore's financial prosperity so far and the still brighter prospect in the near future. And the credit for this achieve-

ment looms still larger when we remember that Mysore's path has not been all rosy. In spite of recent re-organisation of all-India defence taking into account Indian States as integral parts of the system, the annual subsidy of Rs. 19.11 lakhs (recently reduced from Rs. 25 lakhs) persists, and is sitting as a deadweight against the uphill task of social amelioration. The retrocession of Bangalore has been hanging for reasons known neither to the Mysore Government nor to Simla, and naturally the net residue reaching the Mysore coffers from the Administered Areas continues to tend to be at the possible minimum. As Sir Mirza Ismail said once pithily, Mysore administration has nothing in its pocket to be ashamed of, and it is the barest duty of the Central Government to co-operate with the Mysore Government in the latter's march forward, by cancelling the tribute and handing back the Administered Areas in Bangalore. Contributions are due to the Mysore Government from the Government of India on account of currency, posts and telegraphs, customs and petrol excise—all of which have been allowed or offered to certain other States by the British Government and not to this front rank State. On railway and harbour facilities, the attitude of the British Government is equally mysterious. The small gap between Chamarajanagar and Satyamangalam (now being linked at heavy cost to some extent by buses and lorries) should have been connected long ago, the result of which would have been to

make the Hindupur-Satyamangalam line the chief artery for traffic between north and south India. Hyderabad fared better by connecting Gadwal and Karnool (thus connecting Manmad and Chamarajanagar) and Kazipet and Ballarsha (connecting the extreme south of India with Delhi and the northern frontier). But, the M.S.M. Rly. Company and the British Government have closely co-operated in postponing this vital connection between Chamarajanagar and Satyamangalam. Similarly, the Bhatkal railway and harbour scheme has been put in the ice box for decades with the result that the rich potentialities of the Mysore Malnad are still a sealed book for want of an outlet, and Mysore trade suffers the unjust extra transportation charges between Bombay and Bangalore to and fro. In all these matters, it is hoped that with the advent of the new Ruler to the throne of Mysore, a new momentum will be initiated towards the satisfactory solution of these outstanding and fundamental financial problems.

Readjustment of Fundamentals.

Financial ills of governments in India have been chronic for three main reasons--apart from wanton extravagance and consequent insolvency which might be considered an abnormality. The system of annual budgets and lapses usually caused hurry and waste in the closing weeks of the financial year: it was like seasonal fever which caused many an error of judgment and left the organism weak for the next few months—to be

followed again by the next season of excitement and unsteadiness. The next handicap was that Indian budgets were "gambles in rain." Scarcity of rain or unevenly distributed or ill-timed rain or excess of it topsy-turvied all expectations of any financier, and failures of crops and bumper crops resulted in periodical famishing and feasting respectively—the whole thing leading to a diseased body economic. The third problem was the denial to the local governments of one or more of the substantial heads of revenue combined with the fixture of responsibility for all expenditure on that government; or, *vice versa*: local governments were compelled to shoulder disproportionately heavy expenditure to cater to predominant local or foreign interests.

The ravages wrought by the great famine of 1898 and the terrible debts accrued on account of the Hyderabad Contingent are engraved in history. Mr. Akbar Hydari (now the Rt. Hon'ble Dr. Nawab Sir Hydar Nawaz Jung Bahadur) grasped the situation clearly and began his regime as Finance Member of the Hyderabad Government, with a re-adjustment of the fundamentals with a rare and bold financial foresight. While submitting the budget for 1921-22, the Finance Member proposed the following reforms* with a view to exhibit the financial condition in its true perspective, ensure a fairer distribution of the financial resources and encourage greater thrift in expenditure:

* The Note on, and Rules under Departmentalisation are appended.

1. The revision of classification of the heads of receipts and expenditure.

2. The earmarking of the different funded investments under separate reserves.

3. The departmentalisation of finances.

Many useful and necessary changes were introducd in the classification. Thus, the different heads were arranged according to a definite principle and the numbers against each major head on the receipts and expenditure side were made identical. The receipts of civil departments like education, medical, police, etc., which are very small and incidental, are not shown on the receipts side, but the expenditure is shown net in the published accounts. Refunds, instead of forming one separate major head for all kind of revenue, are deducted from the revenue head concerned. In the same way, compensations are not debited together to one major head but to the head concerned. The same proceedure has been followed with regard to jagirdars, pensions and *rusums*. The head "miscellaneous" used to have all kinds of items including receipts on account of sale of promissory notes and investments. These were all separated and placed under proper heads. One major head—"scientific and miscellaneous departments"—had a larger number of different departments grouped under it. Some of these departments like telephone were transferred to "commercial and quasi-commercial" concerns,

and others like agriculture, veterinary and co-operative credit were made separate major heads and brought under administrative departments (internal development). Separate heads were opened for famine relief (in which is laid every year a fixed amount for this uncertain but necessary expenditure) and for the different funds for the redemption of debt, investment of surplus balances and the purchase and sale of securities.

The second reform was to earmark the different funded investments under separate reserves according to the sources from, or the objects for which they had been constituted. Govern ment held certain rupee and sterling investments. The latter were set apart for railway redemption purposes. The Osmania Sicca Stablisation Reserve *comprised B. G investments earned from the coinage of Osmania Sicca rupees. The Famine Reserve was separated, to which Rs. 15 lakhs are added every year. A portion of the interest on this is being used every year for well-defined well sinking programmes in areas affected by famine. The debt redemption reserve was constituted as a sinking fund for the redemption of loans floated by the Hyderabad Government from time to time. The paper currency reserve was earmarked for the purpose of supporting the purchasing power of the Hyderabad

* Osmania Sicca or O. S. means the Hyderabad currency, and British Government or B. G. means the currency circulating in British India. The ratio is B. G. Rs. 100 = O. S. Rs. 116-10-8 = i. e B. G. Rs. 6 = O. S. Rs. 7.

currency. In addition to the general and deposits reserve, a new reserve, was constituted later called the industrial reserve for giving help in the shape of debentures or loans or advances at moderate rates of interest to large industrial concerns, and to use the interest itself in helping smaller industries.

The third and the most important reform is known as the departmentalisation of the finances. Under this scheme, the Finance Department makes a forecast at the beginning of each triennial period of revenues which are likely under normal conditions to accrue during the three years. With this as a guide and in consultation with the other departments of Government, the Finance Department fixes the normal budget grant of each department for each year of the triennial period. The word "normal" might perhaps convey the false impression that the forecast will be rigid and static, making no allowance for provision for growth and development during the contract period. Nothing could be farther from the truth. In fact, just as the forecast of revenue made at the beginning of each triennium on which the norm of revenue is based, includes anticipated ordinary increases, so the estimate of the annual requirements of each department, framed in consultation with that department, on which the norm of expenditure is fixed, includes provision for such development as the department can foresee during the three-year period. If, on the conclusion of a triennial

period there is any surplus, that surplus also is distributed among the various departments together with a moiety of the estimated amount which a departmet has failed to spend at the end of the contractual period, while the other moiety continues to stand to the credit of that department during the next triennium. From the reserves thus created, extra grants are made — preferably for schemes which do not involve a recurring liability, which can be completed in a given time and the total cost of which from start to finish can be reckoned; such for example as the provision of buildings and equipment for various departments, especially those concerned with internal development, roads and communications.

In order that expenditure under such heads as famine (which recurs inevitably but after a cycle of years,) or redemption of debt which has to be effected in a given period, may not cause any disturbance in an otherwise clear financial programme, regular and separate reserves have been formed, to which fixed annual allotments are made so that the estimated liability may be covered when it actually occurs, without affecting normal activities.

The system makes for a well deliberated and far-seeing programme with due care and economy in the expenditure. It avoids the rush of often hurried and ill-considered expenditure at the end of a budget year in which the spending depart-

ments are apt to indulge, where the system of grants lapsing at the close of the financial year obtains. Although the Finance Department expressly reserves to itself the right to reduce the contract grants of the various departments in case of some grave financial emergency, it has not so far exercised this right. During the last 18 years, not only have the triennial contracts with the departments never once been broken, but where good and sufficient reason has been shown, Government have sanctioned extraordinary expenditure by departments over and above contract grants.

It was in 1922-23 that these reforms were introduced in all departments in Hyderabad, and similar reforms with some variations were contained in the convention of the separation of the railway from the general budget of the Government of India in 1924. Eighteen and sixteen years have passed respectively after these events, but what wonderfully different results have emanated! The prime fact to be noted is that the Finance Department in Hyderabad has been all eyes during these 18 years while the British Indian Finance Department has given proof of a prolonged coma during the 16 years following the railway budget convention, in so far as little was done to check the growing deterioration in railway finance. Timely checks should have saved both the railway and the general coffers of the Government of India from the present losing position.

First Fruits of Hyderabad Financial Reforms.

The following are the first fruits of the financial reforms in Hyderabad, during the fifteen years for which the Right Honourable Sir Akbar Hydari was Finance Member after the reorganisation was begun by himself:

"The surpluses that accrued from the excess of current revenue over current expenditure amounted to about 14½ crores. Out of these, almost half was given to departments, mainly Public Works for buildings and roads, and nearly one-fourth was laid aside for famine insurance and debt redemption. Of the remainder, three-fourths of a crore was used in instituting the Industrial Trust Fund, and over 3 crores for the purchase of the Railway (which was not expenditure but a well paying investment). The capital outlay during this period was 13½ crores as shown below:

(1) Rs. 7 crores for the construction of new railway lines;

(2) Rs. 5½ crores for irrigation works;

(3) Rs. ½ crore on City Electricity;

(4) Rs. 25 lakhs on telephones and district electricity; and

(5) Rs. 25 lakhs on miscellaneous capital undertakings like mines, printing, etc.

Against these assets in the form of capital outlay and reserve, the debt outstanding was only Rs. 7¼ crores. We have in the Railway and

the City Electricity Department two valuable assets which on our books stand at about Rs. 18½ crores, bringing in a net annual income of nearly Rs. 1¼ crore, and the various reserves amounting to over 12½ crores have been fully invested in securities of the Government of India."

Sir Akbar's own words and those of his successors in the Finance Department depict the situation best:

"It seems paradoxical that with revenues hard hit by the prevailing depression and without levying any extra burden on the tax payer of the State, who I may add in parenthesis has never yet paid any income tax, it has been possible for financial equilibrium to be maintained. The result is entirely due to two factors. One is that the expenditure of these Dominions has not been geared up to a high level of taxation. The other and equally important factor has been that His Exalted Highness' Government have ever since the beginning of this century believed in steady rather than in a spectacular advance in the matter of expenditure. Step by step, as funds become available, activities begun at first on a small scale have only been expanded, if justified in the light of experience and as funds became available. This applies more especially to recurring expenditure. H. E. H.'s Government have always been and still are extremely strict

in adding to their permanent recurring liabilities. This is not to say that every year does not see some addition to our recurring expenditure: we add to it gradually as we see our resources expanding and not in vague anticipation of expanding revenues. The same policy of embarking on projects only when funds are available or in sight, has been followed in regard to non-recurring expenditure, such as on irrigation works, roads and railways; but because from its very nature, capital expenditure on any scheme is limited in its duration and the total cost capable of being estimated, Government has been able to be much more generous towards schemes of non-recurring expenditure than it has been and is to expenditure entailing a permanent addition to our liabilities. It is light taxation and a strict control over increases in recurring expenditure that has under Providence enabled these Dominions to come through financially sound out of perhaps the most difficult period in their recent economic history" (extract from Sir Akbar Hydari's Budget Note for 1933-34).

"Within this steel frame of prudent finance (Sir Akbar's), freest scope is allowed for the growth and development of the Departments; and although the rules do not entitle a Department to demand fresh allotments during the currency of a triennium, the Finance Department endeavours to meet any unexpected requriements that the Departments can

justify. That the contracts with the Departments are made in a generous spirit will be evident from the fact that unspent amounts, half of which the Departments were allowed again to take to their credit for the next triennium, amounted to Rs. 35. 69 lakhs in 1332–34 ✤ (1923–25), Rs. 48. 91 lakhs in 1335–37 (1926–1928), Rs. 85. 99 lakhs in 1338–40 (1929–31), Rs. 101. 05 lakhs in 1341–43 (1932–34) and are expected to come to Rs. 77.87 lakhs in 1344–46 (1935–37). (The actual Departmental savings in this triennium were Rs. 151. 22 lakhs. Every pie of the surplus that accrues from year to year is distributed in the shape of additional non-recurring grants for departmental equipment and works of public improvement and utility. One special feature of Hyderabad Finance is that it eliminates the chances of deficit budgets. Surplus is touched only when it actually accrues and not before. Loans for financing capital works and commercial undertakings are not floated unless an adequate provision to the credit of the Debt Redemption Fund is made in the Budget for its complete amortisation before the date of maturity. The creation of the Famine Reserve which stands at the substantial figure of Rs. 285 lakhs insures against disturbances which the occurrence of famine conditions must otherwise cause." (Extract

✤ The Hyderabad year is "Fasli"—from October to September.

from Nawab Fakhr Yar Jung Bahadur's Budget Note for 1937–38).

"When I presented my Budget last year, I had stated that we looked to the future with confidence: this optimism I still maintain. If we steadily pursue the policy hitherto followed of regulating the growth of expenditure according to the resources at our disposal, the stability of Hyderabad Finances must continue unshaken. A faster pace must be attended by an equally rapid development of potentialities of existing resources or the search for new ones." (Extract from Nawab Fakhr Yar Jung Bahadur's Budget Note for 1938–39.)

"I may mention in the end that the Finance Department had made it their special care to see that all proposals affecting the prosperity and the advancement of the people of Hyderabad should not suffer for want of timely financing. With this object in view the Finance Department have, in spite of the strain of war, and famine, undertaken to advance a loan of Rs. 40 lakhs to the Hyderabad Municipal Corporation for providing civic amenities to its citizens. A loan of Rs. 15 lakhs is being given to the District Local Funds for carrying out their public schemes with expedition. The grant of the Well Sinking Department has been increased from Rs. 5 to Rs. 8 lakhs, so that protected water supply may be provided in all the villages of the

Dominions. An additional grant of Rs. 5 lakhs has been given to the District Water Works for 3 years to accelerate the progress of drainage and water works in the Districts. The Finance Department have also taken upon themselves the liability of meeting the cost of the Public Health Scheme and dispensaries in district towns which at present are borne by the medical cess of the local funds, so that the district local bodies may not be handicapped in starting their labours under the new Constitution. The cost of primary education has been taken over by the Government, for which the Finance Department had provided an additional allotment of Rs. 7½ lakhs in the current triennium with a promise to raise it to Rs. 12½ lakhs in the course of the following five years, which promise has been redeemed by providing the additional one lakh in 1350 (1940–41) Budget. The Finance Department are fully alive to the necessity of developing the industries of the State, and would offer full support to the Advisory Committee which has been set up by Government for furthering the industrial development of the Dominions taking advantage of conditions created by the War." (Extract from Nawab Mahdi Yar Jung Bahadur's Budget Note for 1350 (1940–41).

On 6th October, 1940, the several Reserves were

	O. S. Rs. in lakhs
Debt Redemption Reserve	337.54
Famine Reserve	293.38
Industrial Reserve	219.15
O. S. Stabilisation Reserve	361.62
Deposits & General Reserve	64.67
Paper Currency Reserve	1650.94

Financial Protestantism.

"The theory of Economics does not provide a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of mind, a technique of thinking, which helps its possessors to derive correct conclusions." J. M. KEYNES.

This idea is perhaps vividly illustrated by the financial methods and policy inaugurated by the Rt. Hon'ble Sir Akbar Hydari in 1922 and worked so successfully over a period of 18 years. From the view-point of orthodox axioms and practice in Finance, Sir Akbar's triennial contracts, his adherence to the generally considered obsolete sources of revenue, and his beginning at the "receipts" end and "cutting the coat according to the cloth" in schemes and measures of social advancement and relief—these should look heterodox, but the conclusions have proved correct and efficacious in practice. And the "technique of thinking" possessed by this veteran financier has drawn for him unqualified appreciation at

the hands of all wings of economic and financial thought.

British Indian Railways.

The ills of the British Indian Railways are too well known to need any detailed narration. It will serve our purpose if we review the events briefly. Started in 1845, the Great Indian Mutiny gave an impetus to the extension of the Indian Railway system, and that with British capital ("there was no private capital in India for railway construction")—so that two birds might be killed with one stone. 1859 saw the contracts with 8 British companies for the construction of 5,000 miles of Indian railway, involving a capital outlay of £ 52 million. Interest was guaranteed at 5 per cent. (half yearly settlement at 22d. per rupee) by the Government, and land was to be granted free. Any surplus was to be divided between the Government and the companies half and half. At the end of 25 years, the Government of India could take over on fixed terms, and even before that, Government was entitled to supervise expenditure and the working of the companies. The contracts proved very expensive, there having been over-capitalisation practically at every step, ignoring local conditions. Deficits began on railways, and then Government launched a policy of railway construction directly by themselves. This proved a failure and once again railway construction was given over to companies — this time on easier terms.

During the severe famine and exchange weakness of 1879, 4 companies were floated, and the Nizam's Guaranteed State Railway Company was guaranteed interest on 330 miles of railway. By 1890, 8494 miles had been completed, but the frontier lines were "ballasted with rupees" — such was the heavy capital outlay per mile.

In the 20th century, the financial results of the Indian railways were spasmodic, sometimes yielding small net returns, often developing heavy deficits: in the year 1900, there was a small profit for the first time, and railway earnings were

YEAR	net gain £ million
1907-08	+ 2.000
1908-09	− 1.243
1919-20	+ 10.573
1920-21	+ 3.767
1921-22	− 6.182

As a result of action on the Acworth Committee Report, the earnings were

1922-23	+ 0.813
1923-24	+ 4.275
1924-25	+ 8.579
1925-26	+ 5.796

The main recommendations of the Acworth Committee were that economy should be realised by amalgamating smaller companies, and that private enterprise should be allowed to come in only when the State could not do construction work for any special reasons.

Then came the Convention on the separation of the Railway Budget, and all seemed well. "The final resolution agreed to by the Assembly on September 20, 1924, and accepted by Government differed from the original resolution in that the yearly contribution had been placed at 1 per cent. instead of 5/6th per cent. on the capital at charge, and if the surplus remaining after this payment to general revenues should exceed Rs. 3 crores, only 2/3rds of the excess over 3 crores were to be transferred to the Railway Reserve and the remaining one third was to accrue to general revenues. At the same time, a Standing Finance Committee for Railways was to be constituted to examine the estimate of railway expenditure and the demand for grants, the programme of revenue expenditure being shown under a depreciation fund. This committee was to consist of one nominated official member of the Legislative Assembly as chairman, and 11 members elected by the Legislative Assembly from that body. This would be in addition to the Central Advisory Council which will include the members of the standing committee for Finance and certain other official and non-official members from the Legislative Assembly and the Council of State. These arrangements were to be subject to periodic revision, but to be provisionally tried for at least 3 years. They would, however, only hold good as long as the E. I. Ry. and the G. I. P. Ry. and existing State managed railways remained under State management, and if any contract for the transfer

of any of the above to company management was concluded, against the advice of the Assembly, the Assembly would be at liberty to terminate the arrangements in this Resolution. The Assembly in an Addendum recommended that the Railway services and the Railway Board should be rapidly Indianised and that the stores for the State managed Railways should be purchased through the organisation of the Indian Stores Department."

The State Railways in British India earned the following rates on capital at charge during the years succeeding the 1924 Convention:

year	rate of return per cent.
1924-25	5.9
1925-26	5.2
1926-27	4.9
1927-28	5.3
1928-29	5.0
1929-30	4.5

British Indian Railway " Raids ".

With the 1930 depression, the story of the Indian railways turned round the corner into a series of deficits. " The precise nature of the present difficulties is mainly the consequence of the financial policies pursued by the Indian Railways after the advent of the depression in 1930." The practice of postponing their current liabilities and draining on their reserves was allowed to continue for about a decade by the Finance Department and the Finance Committees at the

Centre, and naturally the position became quite hopeless at the end of the period — that of a spoilt child grown into comparatively inelastic manhood. The Railway Reserve Fund was wiped out, the Railway Depreciation Fund was drawn on and reduced to a half, and the contributions to the general revenues according to the 1924 Convention were suspended. By April 1, 1940, the accumulated deficits of 10 years were Rs. 67 crores, working at 8.8 per cent. of the capital at charge on State owned railways. The three years' moratorium spelt, not a revival, but definitely worse conditions. Attempts were made to score out these accumulated dues so that the Railway management could continue with their "raids" with greater legitimacy and equanimity, but both the Central Legislature and the Wedgwood Committee were against this. Luckily for the railway "experts", the war came in, and naturally, there was no time to think of the 1924 Convention and the dues on account of past deficits. On the other hand, a new policy has begun of seriously claiming that the Indian railways have worked very well financially, and they stand much better compared to the railways in other countries. The old dues are ignored, and it is claimed that during the years 1938–39, 1939–40 and 1940–41 (estimates), the "surpluses" work at Rs. 1.37, Rs. 3.61 and Rs. 8.29 crores! It is declared: "The facts warrant quite a gratifying view of the financial position of Indian railways in the existing unsettled world conditions."

"Howling from roof tops" with the hope that even black lies will change into accepted truths by repeated dinning—that is Dr. Goebbels' formula, but the widely advertised claims of the British Indian Railways are no less chimerical. As though all considerations were not given due weight at the time of the Railway Convention, strategic lines are said to involve the general railway finances in a deficit of Rs. 2 crores annually, and it is claimed that this should be excluded while judging on the working of the Indian railways. In many cases, it is claimed, purchase prices were at premium, and therefore, due margin should be left on that account also. These purchase prices were paid with full consciousness, and the Railway Budget must face the consequences thereof. Here again, the unequivocal negligence of the Central Finance Standing Committee, the Central Finance Depart ment and other concerned bodies clear. Capital outlay on many other lines is not remunerative, and yet guaranteed interest has got to be paid. In this the responsibility of the Finance Department is plain—the rates of interest should have been brought down by negotiation or at the expiry of leases, to fit in with the general economic conditions of the concerned railways, and again, costs should have been cut down on lines which tended to prove unremunerative.

Fourthly, it is claimed, the Wedgwood Committeewas not able to point out any further economies of first class magnitude. It does not

require any committee to say that the coat should be cut according to the cloth available, and if the Finance Department thought that the railways could be allowed to develop into a white elephant feeding on the general revenues of the Centre and Provinces, that was the "unkindest cut" they could make on their defenceless "ward". Another contention was that the Indian railways were losing about Rs. 4.5 crores a year on account of road competition. The Mitchell-Kirkness Committee on road and railway competition was published in 1933, but little has come out of it in practical economy and co-ordination. The predicament is entirely due to bankruptcy in policy. The splen did results shown by the Hyderabad State as a consequence of the co-ordination of rail, road and air, are given later in this Paper. Sixthly, it is argued that wages raised in times of high prices could not be reduced during depression. This argument would be all right provided the money to pay came from some body else's pocket, and so far as the policy-mongers at the Centre were concerned, the money did come from "some body else"'s pockets.

The Niemeyer Diagnosis.

The present position is that 6 out of 9 principal railways in British India are working at a loss even if actual interest charges are taken into account. There has been over-capitalisation even

after 1924. Sir Otto Niemeyer made no secret of this and said: "The position of the railways is frankly disquieting. It is not enough to contemplate that in 5 years' time the railways may merely cease to be in deficit. Such a result would also tend to prejudice or delay the relief which the Provinces are entiled to expect. I believe that both the early establishment of effective co-ordination between the various modes of transport and the thorough-going overhaul of railway expenditure in itself are vital elements in the the whole Provincial problem." On the contrary, the trend of expenditure is still on the rise, with numerous sinecure jobs and extra-national scales of salaries for British employees in view of war conditions. It should prove instructive to see that the ratio of working costs during 1938-39 was 67.1 on state-owned railways in British India, 49.3 on the Nizam's State Railway, and 70.29 on the Mysore State Railways—in the first two cases, including contributions to the respectsive Railway Depreciation Funds, in the last case including contributions to the Depreciation Fund and the Railway Surplus Frofits Fund. To claim it as a credit that the ratio is lower on Indian railways than on British and American railways would be to close one's eyes to the fact that costs on account of raw material and labour are much lower in India than in those countries.

"Commercialise" Indian Railways.

The glaring and haphazard mis-management of Indian railway finance has resulted in lowering

the pulse of national economic life. Sir Otto Niemeyer's Award contemplated subtantial contributions from the Central revenues to the Provinces for providing more reasonable funds for development work, out of the excess of railway contribution to the Central revenues and income tax realisations put together, but Sir Otto's hopes have been nipped in the bud, and due to war conditions, the Amending Orders have superseded the Niemeyer Award. What is the net result of all this? The Provinces left with lean resources with the hope of getting some support from the Centre, are left alone (some of them with depleted resources on account of the prohibition movement), and work is being manufactured for the new Federal Court in the shape of appeals against new Provincial taxation and surrender of old types of taxation. With the prospect of customs duties dwindling, partly on account of overseas supplies becoming less and less available, and partly due to development of indigenous industries, it would be a mystery if the Central Government did not, in the interests of the country as a whole, set up immediately, a Committee with full powers in order to concert measures for "commercialising" Indian railways, thus putting an end to the variegated fancy dress patrol we have had for about a century.

Hyderabad Railways.

The picture of the Hyderabad Railways presents a strong contrast to this fairy (and sorry)

tale of British Indian railways. The main features of Hyderabad railway finances have been the building up of a special railway reserve which would enable the Government to purchase the Railway when the lease expired; continuous negotiation on saving for the Hyderabad Government, taxes levied by the British Government on shares held by the Hyderabad Government in the N. G. S. R. Company incorporated in England; great discretion in handling proposals for new lines or new connections on account of potential difficulties at the hands of the Government of India and the companies working neighbouring railway lines in the matter of rates and jurisdiction; the purchase of the Railway in 1930, forty-five months before the expiry of the lease; and an extraordinary success after that in making the Railway pay better year after year, at the same time leading to substantial improvement in conveniences to the public, by launching a scheme of co-ordinating rail, road and air. Even by 1922, the Railway Purchase Reserve stood at about £2 million, and contributions were made every year to this Fund.

Rates & Jurisdiction.

On the State policy towards the construction of the Gadwal-Karnool Section and the Kazipet-Ballarshah Line, the observations by the Rt. Hon'ble Sir Akbar Hydari (then Finance Member) run thus:

"The negotiations with regard to the construction of the Gadwal-Karnool and Kazipet-Ballarshah lines, have brought out into prominent relief the difficulties with which H.E.H.'s Government are confronted in their Railway programme on account of their land-locked position which necessitates their trunk lines being aligned on foreign railways at junctions in British India. One difficulty is the question of rates on which restrictions are sought to be imposed by neighbouring railways, in some cases even after the Government of India and the Secretary of State have accorded their sanction. These restrictions are in many cases obviously such as cannot be defended upon any ground of public policy other than a remote possibility of reduction, to a very small extent, in the earnings of these railways, a reduction which would in all probability be more than made up by the general increase that must follow any expansion of the railway system. Another difficulty is the demand for cession of jurisdiction on the whole course of the line which means the practical cutting off from H.E.H.'s Government of large slices of their territory. These and other difficulties must naturally tend on the one hand to divert the railway policy of the Government more and more from the construction of trunk lines which would link up the Dominions with the rest of British India and make their railways form an organic part of the general In-

dian railway system, and on the other hand to concentrate it more and more upon purely internal feeder lines where neither any question of rates is raised by neighbouring railways nor is any cession of jurisdiction demanded by the Government of India."

On the other hand, the position of the Nizam's State Railway on sections worked by them in British Indian territory, linking up their lines respectively with Manmad, Bezwada and Dronachalam, is an embarrassing one: "sovereignty" is retained on such sections by the British Government, "possession" is ceded to the N. S. Ry., but "jurisdiction" (civil & criminal) is reserved by the British Government.

Unwise Taxation.

Sir Akbar's observations on the injustice of British taxation on income from the property of the Hyderabad Government within their own jurisdiction but on the books of the N. G. S. R. Company in London, are equally frank:

"Although our railways are being now financed practically entirely by our Government, and their earnings are derived entirely from our own people in our own territory, yet owing to the Company running them being an English Company, even the moiety of the surplus profits that falls to the Government's share is subjected to very high English income and corporation taxes.

The portion of the net earnings that will continue to find its way into the coffers of the Government of England, is so considerable as to make it imperatively necessary that our Railways are financed in a way that will enable the transfer of the Company from an English to a Hyderabad domicile being effected as early as possible."

The Hyderabad Railway Purchase.

The purchase of the Railway in April, 1930, 45 months before the expiry of the lease, is another financial feat which has meant less payment, avoidance of deterioration of the railway during the last months of the lease, and scope for the Hyderabad Government to launch their new schemes earlier than otherwise. On April 1, 1930, £ 8. 3 million were paid to the N. G. S. R. Company against a calculated liability of £ 8. 432 million, thus saving for the State £132,565 plus the total net earnings as from that date, the details being as follows :

Statement.

Value (on 1-4-1930) of the purchase price on January 1, 1934 ..	£	5,933,833
Value (on 1-4-1930) of the dividend- that would have been earnt by the N. G. S. R. Company British shareholders during the 45 months	£	2,118,187
	£	8,052,020
Value (on 1-4-1930) of English income tax saved by the Nizam's Government on their net earnings ..	£	380,545
	£	8,432,565

And this Hyderabad Railway Purchase was probably the very first case in India (in which British capital was directly concerned) where business considerations alone determined the course of action. It should have been very easy for the British Government to impede the negotiations in some way or other (if for nothing else, at least for saving the income and corporation taxes about to be lost): it should have been equally easy for the Government of India to "advise" the Imperial Bank against the accommodation given to the Hyderabad Government and against the trusteeship vested in its hands under the Agreement of March 8, 1930.

The normal rate of dividend distributed by the N. G. S. R, Company was 18 per cent., but the

receipts on account of the Railway by the Hyderabad Government were quite small as shown below :—

YEAR	Receipts by the Hyderabad Govt. from Railways
1923-24	24.06 lakhs
1924-25	37.74 ,,
1925-26	32.15 ,,
1926-27	39.41 ,,
1927-28	37.12 ,,
1928-29	47.57 ,,
1929-30	45.72 ,,

British Indian & Hyderabad Railway Earnings.

To what different results the care and watch of the Hyderabad Finance Department and the indifference and neglect of the Indian Finance Department have led can be seen from the following figures :

Statement.

British Indian Railways		*Hyderabad Railways*
Open mileage	41,134	1,360
Capital at charge on March 31, 1939	Rs. 755 crores	1,458 lakhs.

Year	net return crores of Rs.	percentage of return	net return lakhs of Rs.	percentage of return
1930–31	26.02	3.5	108.98	8.1
1931–32	22.93	3.0	91.47	6.7
1932–33	21.86	2.9	84.86	5.9
1933–34	23.69	3.1	83.80	5.8
1934–35	25.70	3.4	89.79	6.2
1935–36	26.51	3.5	85.96	5.9
1936–37	30.84	4.1	108.71	7.4
1937–38	32.02	4.2	122.46	8.3
1938–39	30.67	4.1	116.35	8.0

On 31–3–1940, the British Indian Railway Depreciation Fund had Rs. 30.58 crores, and the Hyderabad Railway Depreciation Fund was at Rs. 81.4 lakhs, the General Railway Reserve Fund of the latter having been at Rs. 23.29 lakhs. The British Indian Reserve works at less than 4 per cent. on capital at charge: the two Hyderabad Reserves put together work at more than 7 per cent.

The figures in this Table for Hyderabad State are all in B. G. Rs. only.

Note—"Return on outlay" is arrived at after taking into account contributions made to the depreciation fund, but is different from "net profit."

At the Hyderabad rate of return, the net earnings from the British Indian Railways should have been, not Rs. 30.67 crores, but Rs. 60.40 crores; that is, the earnings are 29.73 crores less. Not that European management cannot economise: the General Manager in the N. S. Railway throughout the post-purchase period has been a European, but his policy and programme have been inspired by Indian Finance Members.

Hyderabad Railway Policy.

The Rt. Hon'ble Sir Akbar Hydari had his eyes not only on direct monetary returns but also on the wider issues involved in a policy of State ownership and management of railways: when the Railway was purchased in 1930, he said :

> "The prospects of being in a position to ensure effectively the well being and contentment of all the workers on the Railway with due regard to the claims of the general tax payer and of the travelling and trading public, has been the governing consideration of the Nizam's Government in purchasing from the private company the ownership of the Railways passing through the State, as much as any calculation of direct financial gain by the transaction".

Transport Co-ordination.

The result of the policy of co-ordinating rail, road and air are seen from the figures given in the report for 1939-40 :

"The N. S. Ry. Road Transport Services realised gross earnings of Rs 29. 6 lakhs which are a record, being Rs 0.9 lakh more than those of the previous year. The working expenses decreased by Rs 1. 9 lakhs compared with the previous year, and the net earnings increased by Rs 2.8 lakhs. The route mileage operated by these Services slightly increased during the year from 4069 to 4082. The number of passengers carried was 12 million. The weight carried by the N. S. Ry. Goods Road Transport Services increased by 14 per cent. to 60,000 tons."

Maps are supplied along with time tables for the benefit of passengers, and rail-cum-road excursions are arranged during the excursion season so that more and more of the public may realise the facilities offered by the R. M. T. S. During 1939-40; the capital outlay on the Road Services was B. G. Rs. 57 lakhs. The R. M. T. S. Depreciation Fund had accumulated to B. G. Rs. 29.24 lakhs. That is, in about 7 years' working, in spite of rapid expansion, the Road Services had developed a Depreciation Fund constituting more than 50 per cent. of the capital outlay during the seventh year. All possible care has been taken to accommodate the ex-services on roads by purchasing their vehicles and employing their drivers.

"The lighting equipment and the extensions to the Aerodrome at Begumpet were completed

during the year. This Aerodrome can now be ranked among the best in India. The work of levelling the sites for the landing grounds at Aurangabad and Adilabad is in progress. The Hyderabad-Bangalore-Madras route was surveyed and a bi-weekly service on this route commenced from the 9th April, 1940."

Hyderabad Railway Contributions.

The concrete help given by the Hyderabad Railways to general finances is acknowledged by the Rt. Hon'ble Sir Akbar Hydari in almost every one of his later Budget Notes, from which the following are extracted :

"Although the accumulations of our surpluses during the current triennium for expenditure in the next contract period might be comparatively small, a new source will emerge to strengthen our resources when the purchase price of the Railway will have been entirely paid off through our Railway Purchase Reserve in 1343 (1934), which will give a net increase to our revenues of at least half a crore a year."

" A good deal of this activity would have been impossible had not the State Budget received material help from the purchase of the Railway from which the State received on an average about 20 lakhs a year in the quinquennial period 1316 to 1320 (1907-1911) but which is now yielding 108 lakhs a year. The purchase

was effected by constituting a Railway Purchase Reserve in 1922 to enable the Government to purchase the Railway from the Company without any loan."

"British" versus Hyderabad Finance.

Cautious forecasts, vigilant checks, timely economy, a steady pace in "building" and in "spending", close co-ordination, foresighted negotiation, continued and consistent policy — these have been responsible for the present very satisfactory position of Hyderabad Finances. If only Hyderabad had been given more co-operation by the Government of India, her financial achievements should have been more remarkable still. The 1902 Treaty secured Masulipatam as a free port for Hyderabad ships and trade, and no customs duty was to be levied by the contracting parties on goods not breaking bulk in their respective jurisdictions. On both these treaty rights, the unilateral interpretation is being advanced that a clause either not used at all or long in disuse does not continue to be operative. In one frontier district. British currency circulates while the Hyderabad currency is legal tender. This anomalous state of affairs hits the poor cultivator hard, and in spite of all that is being done by the Hyderabad Government in order to make available the local currency for the payment of land revenue, etc., it is an admitted fact that the poorer classes stand to lose considerably on account of the persistance

of the British currency in Hyderabad area. Against representations, a para in some correspondence is held up, and the Hyderabad Government is in consequence unable to insist on the use of Hyderabad currency only, within their own jurisdiction. The civil and criminal jurisdiction has been handed over to the Travancore Government by the Government of India on railways in that State, but Hyderabad (although the Premier State) has yet to get that jurisdiction, the ostensible excuse for the delay being that Hyderabad is in the midst of British territory whereas Travancore is in a corner. This reservation of jurisdiction has its financial as well as political aspects as this means so much less employment to Hyderabad Police, lawyers and courts, and so much inconvenience and annoyance to the general public. The Hyderabad Government does not get any remuneration or royalty on the Raichur-Sholapur Section: one does not know (nor is information available) whether it is open to the Hyderabad Government to purchase that section running through Hyderabad territory. As matters are, although O. S. currency is the coin of the land, the G. I. P. Ry. stations on the Raichur-Sholapur Section do not accept this currency (while the N. S. R. stations this side of Wadi do not accept B. G. currency except at Hyderabad and Secunderabad), and the result is that practically every one of the Hyderabad people in that area has got to carry two purses always, one B. G. and another O. S. There

have been instances in other States of State trains or rail cars running on lines worked by foreign agencies in the State, for a remuneration, but we have as yet no such instance in Hyderabad. The new rail cars go up to Wadi and not beyond, whereas it stands to reason that no distinction should be made by the N. S. Ry. between Hyderabadees this side of Wadi and that side, and these rail cars should run through to the last railway stations on the Raichur-Sholapur Section within Hyderabad frontiers. Hyderabad postal rates and Mysore railway fares are lower than British Indian charges. Although Hyderabad has been according many rights and facilities to British post within the State, through Nizam's post offices, the British Indian Postal authorities have not thought it fit to grant reciprocal facilities, and the relations between the two sets of post offices within the State are so maladjusted that oftentimes the British post office collects "not paid" charges on letters stamped with Hyderabad stamps, and *vice versa*. Sometimes, letters with British stamps posted in British post offices are transferred to the Nizam's post offices for delivery (as delivery rights of the British post offices are restricted) and the Hyderabad post offices levy "not paid" charges because Hyderabad postal delivery was available for such letters and yet the parties used British stamps and posted in British post boxes. Letters from outside the State although transferred to the Nizam's post offices for delivery are not charged

"not paid" but delivered free. On account of the insistence of jurisdiction by the Government of India, the Hyderabad Government have suspended the policy of ramifying the Dominions with an adequate number of telegraph offices. The local telephone system is spreading, but for business and commercial communication among the bulk of the community over long distances, the telephone cannot serve as well as the telegraph, and the effect of all this on the industry and trade of the State is very reactionary. The Hyderabad Government is not allowed to adjust their protective tariff suiting local needs and conditions, in view of the 5 per cent. maximum contained in the Treaty, although a 15 per cent. import duty was allowed for some time on silver and so far as common salt is concerned, Hyderabad has been allowed to levy an import duty up to 50 per cent. In the name of reason, such a discretion ought to have been afforded in the case of industries for which Hyderabad has magnificent natural facilities.

Conclusion.

In spite of these and similar difficulties and obstacles, Mysore has developed into the Sweden of India and Hyderabad into the U. S. A. of India (so far as financial prestige is concerned, but without the American deficits). Ultimately, these different results realised in these two premier sister States on the one hand, and the crumblings and collapses experienced in British India

on the other, have to be traced to the fact that in these States, Finance has been managed and controlled by Indians, and in British India Finance has been managed by British interests. Values differ considerably of same goods or services even between husband and wife and it is no wonder that the "good of India" is being interpreted differently by Britishers in India and in England, and by Indians themselves. The rarest of statesmanship is humanism, but British Finance in India has been humanistic more in the sense of predominant consciousness of self-interest than of occasional sympathy for its Dependency.

The moral is simple. Anything like one nation guardianising the economic interests of another has no illustration either in history or in the contemporary world: the British use of Indian resources in peace as well as in war for their benefit is quite understandable, but what cannot be swallowed is the British claim that they have been the best saviours of the country's economy. The few but crucial instances described in this Paper establish the thesis that men like Sir M. Visvesvaraya, Sir Akbar Hydari and Sir Mirza M. Ismail have been worthy custodians of national economic interests, although on a smaller scale within their own spheres of activity. And this in spite of numerous obstacles from Simla or Whitehall. It is indeed extra-ordinary that no Indian has been yet thought fit to hold the Finance portfolio with the Government of India. The financial structure,

policy and programme which have brought Hyderabad and Mysore to their present bright condition, specially the *constant care* with which the finances have been controlled and guided, deserve to be better known, understood and studied in other parts of the country.

If for nothing else, at least for winning the war and safeguarding the Empire in the East in the future, "British" Finance in India will do wisely to make use of some of these veterans and their successful experience in Indian States, in assembling properly factors of production in the country that have been ignored, unutilised or improperly used: disorganisation has been and is the most conspicuous feature of Indian Economy. If we did not cast our "golden bullets" forthwith in adequate quantity (by raising production, employment, and consumption *within the country* to a reasonable standard), the slump *after the War* should be more terrible in consequences than *during the War.*

APPENDIX

Scheme of Departmentalization of Finances.

The Executive Council has desired that in future, a note should be attached, as an enclosure to each Budget Note, explaining the Scheme of the Departmentalization of the Finances, on which the Hyderabad Budget is framed. In accordance with this desire the following note has been framed for the benefit of those who have not had an opportunity of reading the exposition of the scheme in previous Budget Notes.

The main ideas of this scheme were formulated in the following paragraphs, when Sir Akbar Hydari presented his first Budget Note for 1331 Fasli (1921–22) on appointment as Finance Member.

> "I shall try to eliminate as far as possible, from the ordinary revenue and service expenditure of the State, purely temporary items of expenditure and especially those which should not genuinely be considered as such. For example, receipts on account of sale of funded investments like Government Promissory Notes might swell the cash balance of the State, but being at the expense of our invested balances, their inclusion would distort a correct view of our revenue income. Similarly, the

profits from Osmania Sicca coinage, which formerly used to be invested in a separate reserve (the Kaldar Reserve), cannot be depended upon as a regular source of income, and, cannot therefore be treated in the accounts as an ordinary source of revenue. On the other hand, meeting the whole of the famine expenditure as part of the ordinary expenditure of the year in which the famine, after a cycle of years, happens to occur, abnormally exggerates the position, as regards expenditure, of that year.

Departmentation of the inances.

" One of the problems, to which the Financial Deparment proposes to address itself in the coming year, is the revision of the classification of the heads of receipts and disbursements in such a way as to exhibit each class in its true perspective and to earmark the different funded investments under separate reserves according to the sources from, or the objects for which they have been constituted. There is also another object in view in this revision and that is what I might call, the *Departmentalization of the Finances*. In a passage that has become classic, Sir John Strachey showed how before the provincialization of the finances in British India, it was the Province that cried the loudest, and not the one that deserved the most, that got the largest share from the common treasury of India ":—

" The local governments had no means of knowing the measure by which their annual

demands upon the Government of India ought to be regulated, They had a purse to draw upon of unlimited, because unknown, depth. They saw on every side the necessity for improvements, and their constant and justifiable desire was to obtain for their own province and people as large a share as they could persuade the Government of India to give them out of the general revenues of the Empire. They found by experience that the less economy they practised and the more importunate their demands, the more likely they were to persuade the Government of India of the urgency of their requirments."

"Applying this analogy of the *Provinces* in British India to the different *departments* of this State, giving the most to the department that cried the most was a policy which led to no practical difficulties when as ten or even five years ago, a surplus of over a crore or even a crore and a half out of a total revenue of between five and six crores was a normal feature of the State Budget. But this has become imposible now, when as will be observed I deal with the Budget figures for 1331 F., in detail, the highest receipt budget, that has so far been framed, is just sufficient to meet all the demands of expenditure to which the Government practically stands committed; and the policy, that suggests itself to me as the best at present for adoption, is to fix the total grant of each department for a number of years and

give it a large measure of autonomy within that grant, subject of course, to such general restrictions as are necessary to avoid any undesirable developments or precedents, and subject also to a rigid and really effective audit. The department must carry out whatever measures of reform it might desire to institute within this grant. If it happens to have any proposals for capital expenditure, it must provide, within its grant, for the amount of interest by which the earnings of the project fall short of the interest charges, incurred by the State in financing it. If after such allocations of the ordinary income among the different departments and making due provision every year for the formation of specific reserves for such classes of expenditure as, like famine, come inevitably but after a cycle of years, there happens to be a surplus, it would be the happy privilege of the Finance Department to suggest how that surplus could be most profitably distributed, the first claim on it ordinarily being the department contributing to its creation and then of development departments like Education, Sanitation, Commerce, Industries, Irrigation, and Communications, that promote the mental, physical and economic efficiency of the people. Until, however, such a surplus is actually in the coffers of the State, the Members in charge would be trusted to see that the expenditure is kept from year to year within the grants fixed for them for a definite period."

The Scheme was sanctioned in 1331 F. and the following gives the latest version of the rules as passed by the Executive Council of His Exalted Highness the Nizam's Government and subsequently amended.

I. The grants allotted to each department shall be fixed for three years beginning from 1332 Fasli provided that—

(*a*) if any particularly adverse conditions like famine or severe scarcity arise, they will be liable to curtailment,

(*b*) if there is any increase at the end of the year over the Normal Receipts, the excess will be distributed by additional allotments to the different departments in such a way as Government may decide.

II. Each of the spending departments noted in the margin will be entitled to spend in addition to its normal grant any increase in its Receipts and the proceeds of any cess, etc., that may be imposed lawfully for the service of that department.

III. A department may be given in special circumstances a special allotment for expenditure in advance, if the Government is satisfied that the Expenditure will be covered by a corresponding increase in the Receipts.

IV. Each of the Commercial and quasi-Commercial departments mentioned in the margin shall have at its disposal :—

(*a*) its normal net grant, if any is fixed,
(*b*) and the Receipts earned by it, out of which it will have
(*i*) to defray all working expenses,
(*ii*) provide for suitable depreciation, and
(*iii*) pay to Government interest at 5 per cent. on the total Capital-at-charge. From the balance left it will pay such profits to Government as the circumstances of the department permit.

V. Every expenditure will be subject to Budget provision. Expenditure in excess of the normal grant will be allowed either in the circumstances mentioned in Rule III or if the department has an equivalent amount of surplus balance at its credit brought over from the previous year. Expenditure sanctioned by His Exalted Highness without the department initiating the proposal will be chargeable to the savings of the department, but if there are not sufficient savings after providing for previous commitments, the department will be entitled to a corresponding addition to its normal grant in excess of budget provision.

VI. Percentage and scale charges payable under the rules on revenue collected, as also refunds, rebates, and remissions of excess collections shall not be subject to Budget provision.

VII. The savings from departmental grants shall be placed at the credit of the department concerned for expenditure during the years of the contract, and at the end of the third year, one-half of the amount of the unexpended surplus of each department will be carried forward to its credit for the next period of the contract but the savings by reduction under the following heads will lapse entirely to Government :—

1. Mansabs and special allowances.
2. Yomias, Mamuls (not conditional on performance of service).
3. Rusums.
4. Reductions under Irregular Troops.
5. Tahrir of Sarishtadars.
6. All sinecure allowances.

VIII. If any department desires an increase for its capital beyond the capital grant already santioned, it must provide within its grant, *i.e.*, from its receipts, for the amount of interest at 5 per cent. on the whole capital inclusive of the old as well as the new capital claimed. This will be the first charge on its gross receipts.

IX. The charges under Salaries and allowances, Contingencies, and Supplies and Services, shall be regulated by the scales, rules and regulations in force from time to time.

X. The departments will have full powers of inter-appropriation of grants under Con-

tingencies and Special Charges (Supplies and Services) excepting the grants mentioned in Rule VI. They will also have power to re-appropriate from Contingencies and Special Charges to Travelling Allowance and Tour Charges.

XI. The savings under Salaries and Personal Allowances on account of appointments unfilled shall not be appropriated for the creation of permanent appointments, but may be utilised for the payment of arrears of pay or temporary appointments not costing more than the amount. Permanent reduction in establishment below the cadre fixed by Government on the recommendation of the Salaries Commission can be appropriated for the creation of new appointments as well as for increase in contingencies, special charges and other improvements of the deparment.

XII. The allotments for Travelling Allowance and Tour Charges and also the provision for works under Forest, Buildings and Communications, Irrigation and Public Improvements and grants for Petty Construction and Repairs placed at the disposal of each department shall not be appropriated for salaries and contingencies except with the express approval of the Finance Department, which will be accorded only in very exceptional circumstances.